

Message Text

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ACTION MMO-04

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 AGRE-00 /070 W

-----201217Z 100601 /11

R 200916Z MAY 77

FM AMEMBASSY NEW DELHI

TO USDOC WASHDC

SECSTATE WASHDC 3523

INFO ZEN/AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS SECTION 1 OF SECTION 2 NEW DELHI 7292

E.O. 11652: N/A

TAGS: BEXP, IN

SUBJECT: CERP 0006: TRADE AND INVESTMENT OUTLOOK ARTICLE -
INDIA

1. TRADE AND INVESTMENT OUTLOOK-INDIA BY L. RICHARD JACKSON,
COMMERCIAL ATTACHE,AMERICAN EMBASSY, NEW DELHI.

2. POLICIES ADOPTED BY THE NEW JANATA GOVERNMENT COUPLED WITH
THE TRADITIONAL ECONOMIC FACTORS WILL DETERMINE THE TRADE
AND INVESTMENT OUTLOOK IN INDIA FOR THE NEXT YEAR. ALREADY
THE NEW GOVERNMENT HAS ENACTED A NEW LIBERALIZED IMPORT
POLICY AND HAS SET FORTH PARAMETERS FOR ITS INDUSTRIAL
POLICY.

3. POLICIES OF NEW GOVERNMENT: THE NEW GOVERNMENT OF PRIME
MINISTER MORARJI DESAI HAS STATED THAT MORE EMPHASIS WILL
BE PLACED ON DEVELOPING THE AGRICULTURAL SECTOR, FOSTERING
SMALL AND MEDIUM-SIZED MANUFACTURING ENTERPRISES, AND
GENERATING EMPLOYMENT. IT APPEARS THAT INDUSTRIAL POLICY
WILL BE CONCERNED WITH DEVELOPING SMALL-SCALE INDUSTRIES AND
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WITH PRODUCTION OF ESSENTIAL GOODS FOR THE DAILY USE OF THE
COMMON MAN. A COROLLARY CONCERN OF THE GOVERNMENT IS WITH
INFLATION AND KEEPING PRICES DOWN. INDUSTRIES AND SERVICES
THAT HAVE BEEN NATIONALIZED WILL REMAIN SO, BUT A SLOWDOWN
IN ESTABLISHING NEW PUBLIC SECTOR ENTERPRISES APPEARS LIKELY
ECONOMIC POLICIES WILL BECOME SOMEWHAT CLEARER WHEN THE NEW
ADMINISTRATION PRESENTS ITS BUDGET, PROBABLY IN MID-JUNE.

4. LIBERALIZED IMPORT POLICY: A NEW MAJOR GOI IMPORT POLICY FOR 1977-78 WAS ANNOUNCED ON APRIL 27, 1977. IMPORTS HAVE BEEN FURTHER LIBERALIZED PARTICULARLY FOR THE SMALL SCALE SECTOR, AND IMPORT PROCEDURES HAVE BEEN SIMPLIFIED. THE PINCIPAL OBJECTIVES OF THE POLICY, SIMILAR TO EXPORT POLICIES OF PAST FEW YEARS, ARE TO PROMOTE EXPORTS BY PERMITTING INCREASED IMPORTS OF ITEMS WHICH BECOME PART OF EXPORT PRODUCTS, AND TO ENCOURAGE INCREASED DOMESTIC PRODUCTION, ESPECIALLY OF BASIC MASS CONSUMPTION GOODS. THE NEW POLICY REFLECTS AN APPARENT DESIRE BY THE GOVERNMENT TO ELIMINATE SOME CONTROLS OVER THE ECONOMY AND IS MADE POSSIBLE BY INDIA'S SIZEABLE FOREIGN EXCHANGE RESERVES. THE POLICY OFFERS INCREASED OPPORTUNITIES FOR U.S.COMPANIES TO SELL IN THE INDIAN MARKET, PARTICULARLY CAPITAL GOODS.

5. ALMOST 600 ITEMS ARE NOW UNDER THE OPEN GENERAL LICENSE, WHICH MEANS ACTUAL END-USERS DO NOT HAVE TO OBTAIN A LICENSE TO IMPORT THESE PRODUCTS. THESE ITEMS INCLUDE LEATHER MACHINERY, GARMENT MAKING MACHINERY, JUTE INDUSTRY MACHINERY, DRUGS IN UNPROCESSED FORM, IRON AND STEEL ITEMS, LIFE-SAVING DRUGS, GOODS FOR THE ELECTRICAL INDUSTRY, AND SELECTED CHEMICAL AND PLASTIC PRODUCTS. IMPORTS OF SPARE PARTS FOR EQUIPMENT HAVE ALSO BEEN LIBERALIZED.

6. TRADE SOURCES STATE THAT A MAJOR IMPROVEMENT IS IN THE SIPLOFICATION OF PROCEDURES. IT IS EXPECTED THAT IMPORT LICENSE APPLICATIONS MAY NOW BE ACTED UPON WITHIN 4-5 WEEKS.

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7. OTHER PROSPECTS FOR US SALES: THE FOLLOWING MARKETS OFFER GOOD PROSPECTS FOR US SUPPLIERS: ELECTRONICS AND COMMUNICATIONS EQUIPMENT -- IMPORTS OF SOPHISTICATED EQUIPMENT ARE EXPECTED TO BE IN EXCESS OF DOLS 60-65 MILLION ANNUALLY DURING THE NEXT FIVE TO SEVEN YEARS; COMPUTER PERIPHERAL EQUIPMENT -- MOST PROMISING AREAS ARE HIGH SPEED LINE PRINTERS, MOVEABLE HEAD DISK DRIVES, AND CONTROLLERS, MAGNETIC TAPE DRIVES, VIDEO TERMINAL DISPLAYS, CORE MEMORIES, AND KEY TO TAPE SYSTEMS FOR WHICH IMPORTS MAY REACH DOLS 50 MILLION DURING 1977-78; OILFIELD MACHINERY AND EQUIPMENT -- TECHNICAL SUPERIORITY GIVES US OILFIELD MACHINERY, EQUIPMENT, SUPPLIES, AND SERVICES A COMPETITIVE EDGE IN INDIA.OPPORTUNITIES EXIST FOR THE LICENSING OF TECHNOLOGY TO INDIAN COMPANIES IN SELECTED AREAS; AND MINING, CONSTRUCTION, AND MATERIALS HANDLING EQUIPMENT -- BEST SALES PROSPECTS INCLUDE LARGE, HEAVY DUTY EQUIPMENT FOR CONSTRUCTION, MINING, AND MATERIALS HANDLING.

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INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 AGRE-00 /070 W
-----201214Z 100852 /50

R 200916Z MAY 77
FM AMEMBASSY NEW DELHI
TO USDOC WASHDC
SECSTATE WASHDC 3524
INFO AMCONSUL BOMBAY
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8. SALES OPPORTUNITIES ALSO EXIST FOR SOPHISTICATED CHEMICAL
INDUSTRY EQUIPMENT; PROCESS CONTROL EQUIPMENT; PUMPS,
VALVES, AND COMPRESSORS; HEALTH CARE EQUIPMENT; AND
PRINTING AND GRAPHIC ARTS EQUIPMENT.

9. US FIRMS SHOULD ENGAGE COMPETENT, AGGRESSIVE INDIAN SALES
AGENTS IN ORDER TO PENETRATE AND SELL ON A CONTINUING
BASIS IN INDIA. DEPENDING ON THE MARKET POTENTIAL AND GOI
APPROVAL, A JOINT MANUFACTURING VENTURE OR TECHNOLOGY
TRANSFER ARRANGEMENT WITH AN INDIAN PARTNER MIGHT BE
ADVANTAGEOUS TO THE US COMPANY. SOME OPPORTUNITIES MAY
EXIST FOR AMERICAN/INDIAN JOINT VENTURES FOR PROJECTS IN THIRD
COUNTRIES.

10. US INVESTMENT: US DIRECT INVESTMENT IS ESTIMATED AT ABOUT
DOLS 360 MILLION, OR ABOUT ONE QUARTER OF TOTAL PRIVATE
FOREIGN INVESTMENT IN INDIA. NEW US PRIVATE INVESTMENT IN
INDIA DURING THE PAST TWO YEARS HAS BEEN NEGLIGIBLE.

11. THE ATTITUDE OF THE NEW GOVERNMENT TOWARD FOREIGN
INVESTMENT HAS NOT YET BECOME CLEAR. WE DO NOT EXPECT,
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HOWEVER, DRASTIC CHANGES FROM THE PREVIOUS GOI POLICIES WHICH EMPHASIZED EXPORT INDUSTRIES AND THE ACQUISITION OF CERTAIN SOPHISTICATED TECHNOLOGY NOT AVAILABLE IN INDIA. THE FOREIGN EXCHANGE REGULATIONS ACT (FERA), WHICH SETS FORTH THE ALLOWABLE EQUITY PARTICIPATION OF NON-RESIDENT INTERESTS IN COMPANIES IN INDIA, CAN BE EXPECTED TO CONTINUE IN FORCE. THE ATTITUDE OF THE NEW GOVERNMENT TOWARD FOREIGN INVESTMENT MAY BE PARTLY REVEALED IN ITS DECISIONS ON PENDING APPLICATIONS OF US COMPANIES UNDER THE FERA REGULATIONS. ANOTHER BENCH MARK IS THE UPCOMING ANNOUNCEMENT OF THE GOI PHARMACEUTICAL POLICY, ESPECIALLY THE PROVISIONS AFFECTING FOREIGN DRUG COMPANIES.

12. OUR ASSESSMENT IS THAT GOI INVESTMENT POLICIES WILL NOT UNDERGO A MAJOR REVAMPING. TECHNICAL COLLABORATIONS FOR LICENSING, ROYALTIES, OR OUTRIGHT SALES OF TECHNOLOGY APPEAR TO BE THE MOST PROMISING OPPORTUNITIES FOR US COMPANIES. SOME OPPORTUNITIES MAY EXIST FOR EQUITY PARTICIPATION IN EXPORT-ORIENTED COMPANIES OR SELECTED INDUSTRIES.

13. PROSPECTS FOR INDIAN ECONOMY: IN 1976-77 THE INDIAN ECONOMY GREW BY LESS THAN TWO PERCENT IN REAL TERMS COMPARED TO A RECORD 8.8 PERCENT GROWTH THE PREVIOUS YEAR. FOOD OUTPUT WAS GOOD DURING THE PAST YEAR AND FOOD RESERVE STOCKS ARE NOW ALMOST 19 MILLION METRIC TONS. INDUSTRIAL PRODUCTION ROSE BY AN ESTIMATED 7-8 PERCENT, PRIMARILY DUE TO GREATER CAPACITY UTILIZATION IN THE PUBLIC SECTOR, BUT A DEMAND RECESSION CONTINUED IN PARTS OF THE PRIVATE SECTOR. A BRIGHT SPOT IS THE GROWTH OF FOREIGN EXCHANGE RESERVES WHICH AMOUNTED TO A RECORD DOLS 3.7 BILLION AT THE END OF MARCH 1977. TOTAL TRADE BETWEEN INDIA AND THE US REMAINED AT DOLS 1.8 BILLION IN 1976 WITH THE TRADE IMBALANCE IN FAVOR OF THE US DECLINING TO AROUND DOLS 400 MILLION.

THE OUTLOOK FOR 1977/78 IS MIXED, AND AS USUAL DEPENDS HEAVILY ON THE MONSOONS AND FOOD PRODUCTION. THE NEW
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GOVERNMENT IS COMMITTED TO GIVING PRIORITY TO THE AGRICULTURAL SECTOR, BUT SOME TIME WILL ELAPSE BEFORE THE RESULTS CAN BECOME EVIDENT. ADDITIONALLY, THE GOVERNMENT HAS A STATED OBJECTIVE OF A BALANCED BUDGET. EVEN IF THIS GOAL CANNOT BE ACHIEVED FOR 1977/78, REDUCING THE BUDGET DEFICIT MAY MEAN POSTPONING OR STRETCHING OUT CERTAIN DEVELOPMENT PROJECTS. THIS WILL AFFECT GROWTH IN THE ECONOMY, PARTICULARLY THE PUBLIC SECTOR WHERE MOST OF THE GROWTH HAS TAKEN PLACE THE PAST TWO YEARS. THE NEW GOVERNMENT IS CONCERNED ABOUT INFLATION AND IS TAKING MEASURES TO RESTRICT THE GROWTH IN THE MONEY SUPPLY. IN SUM,

GIVEN A REASONABLY GOOD GRAIN HARVEST, THE INDIAN ECONOMY
MAY BE EXPECTED TO GROW AT A RELATIVELY MODERATE PACE
OF 3 TO 4 PERCENT DURING 1977/78.SCHNEIDER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Sent Date: 20-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977NEWDE07292
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770180-0340
Format: TEL
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770536/aaaabell.tel
Line Count: 227
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 8b1f408f-c288-dd11-92da-001cc4696bcc
Office: ACTION MMO
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 11-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2436919
Secure: OPEN
Status: NATIVE
Subject: CERP 0006: TRADE AND INVESTMENT OUTLOOK ARTICLE - INDIA
TAGS: BEXP, IN
To: COM STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/8b1f408f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009